

## To our State Fund customers:

L&I has an important role to play in supporting sustainable economic growth in our state. We know we must do everything possible to support the economic success of businesses so that they can keep their doors open and get people back to work.

That is why we are making many changes, both big and small, to build stronger partnerships with our customers, to operate efficiently, and keep costs down.

Already, we have saved over \$200 million through improvements in claims management, keeping growth in medical and prescription drug costs below the national average, and focusing on fraud.

Last year, the State Fund lost investment income and with fewer people working, premiums were down -- \$110 million less than last fiscal year. Fewer claims are being filed, but claims are lasting longer, and costs continue to go up.

We are concerned by these troubling trends, and we know our workers' compensation system can be improved. That is why in 2011, the Governor is requesting legislative changes to the State Fund that will save millions, improve outcomes for injured workers, and redirect benefits to those who most need them.

Sincerely,



**Judy Schurke**  
Director



## Protection for employers and workers

The Department of Labor & Industries (L&I) administers Washington's public workers' compensation system. "Workers' comp" pays medical expenses for workers who suffer job-related injuries or illnesses, and when they are unable to work due to these conditions, partially replaces their lost wages.

This no-fault system protects employers from lawsuits that could otherwise result from job-related injuries and illnesses.

### Service-focused goals – today and tomorrow:

- Promote safe workplaces throughout Washington. Our services include free on-site consultations for employers, Web-based information, and educational materials.
- Deliver customer-focused services that make it easier and more pleasant to do business with us.
- Value focused – eliminating waste, increasing access to services, and controlling costs.

### We are also committed to:

- Increasing injured workers' access to appropriate, quality medical care.
- Setting premium rates that are fair, stable, and as low as possible for State Fund employers and their employees.

### 2010 Year in Review

For additional copies, contact the Labor & Industries office nearest you.

This publication is also available online at [www.Lni.wa.gov/IPUB/200-018-000.pdf](http://www.Lni.wa.gov/IPUB/200-018-000.pdf).

*Other formats for persons with disabilities are available on request. Call 1-800-547-8367. TDD users, call 360-902-5797. L&I is an equal opportunity employer.*

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Washington State Department of  
**Labor & Industries**

*Workers' Compensation Services*



## 2010 Year in Review

*Washington Workers' Compensation System*



## Fraud affects my business and livelihood

Craig Munson, Owner/Foreman, Seattle Floor Service

Five years ago, I surveyed over 300 flooring contractors with the aid of L&I's contractor look-up database. The data on the website showed the majority of these contractors claimed zero employees. But I knew some of them had employees.

I forwarded this information to the Fraud team at L&I and my concern was met with immediate action. I was also appointed to the Underground Economy Task Force, a joint agency effort between lawmakers and business professionals with the aim to level the playing field for honest contractors.

I've been fortunate to sustain my business for 23 years and provide a good living for my family. For the last two years, however, my bidding pencil has been whittled to a sharp point, drawing a fine line between sustainability and failure while the bad actors who rob the state coffers are leveraging their unrealistically low prices for an ever-increasing portion of the market.

The L&I fraud team understands the stakes are higher now than ever before, and they play to win the war for the law-abiding citizens of this state.



## Things went from bad to worse . . . and L&I was able to help

Jennifer Rivera, Owner, Petdaddy Dog Grooming Spa (right) and Susan Rusch-Barnett, L&I Revenue Agent (left)

In the wee hours of July 7, a pickup truck smashed through five years of Jennifer Rivera's hard work and passion. At 1:30 a.m., nobody was inside "Petdaddy," a popular dog grooming spa in Seattle. No workers were injured, so Jennifer didn't think she would need help from L&I. The wreckage consumed her thoughts as she watched crews clean up the broken glass and board up her storefront. She expected to reopen in a couple of weeks.

A month later, with bills mounting and no revenue from her shattered business, Jennifer wrote a letter to L&I asking for help with workers' comp premiums that she couldn't pay. She was caught in the middle of disputes over insurance and requirements for rebuilding the store and wasn't sure when she would open again.

Susan Rusch-Barnett, an L&I revenue officer, responded immediately. "Our **Employer Assistance Program** helps business owners strapped by the recession, and it works for situations like Jennifer's too," she said.

Susan arranged to delay Petdaddy's workers' comp premiums until the business is up and running again, and then spread them out in monthly payments – with no penalties or interest. She also helped Jennifer arrange forbearance on state taxes and unemployment insurance while the business is down.



## Medical practice sees big benefits from L&I

Puget Sound Orthopaedics and Lakewood Surgery Center staff (front to back): Deborah D. De Veaux, Jill Martin, Mary Ann Keith, Terry Smith

With more than 35,000 patient visits and 2,000 surgeries per year, the busy Puget Sound Orthopaedics and Lakewood Surgery Center knows what insurance paperwork is all about. The center treats many injured workers – about 25% of its practice – for everything from broken fingers, to torn rotator cuffs to backs damaged by heavy lifting.

Because L&I's workers' comp insurance pays these bills, the billing staff has a secret weapon for reducing paperwork hassles—L&I's online Claims & Account Center. This tool allows the authorized doctor and staff to instantly access medical and billing information for their L&I patients and e-mail quick questions to L&I claim managers.

Fast access to information and authorizations can speed patient care and claim processing, which saves time and money for everyone.

"Going online, we are able to go right to the patient's payment information in one or two minutes," said Terry Smith, business office lead. "Whereas going through the paper voucher takes 10 to 15 minutes."

Smith added, "It used to take days to get authorization by phone or fax. Now our claims can be authorized and paid in a timely manner."

The State Fund provides workers’ compensation insurance for about 2,330,000 employees working for 163,000 employers. Premiums paid by employers and workers, and investment earnings, finance the program.

Washington’s industrial insurance system also covers an additional 830,000 workers – approximately a third of the state’s workforce – whose employers self-insure. L&I ensures that those workers receive equal rights, protections and benefits under the state’s workers’ compensation laws.

### Statistics at a Glance

Operating Environment	FY 2010	FY 2009
Employers Insured	163,000	168,000
Workers Covered	2,330,000	2,460,000
Hours Reported	3,070,000,000	3,232,000,000
Premiums Assessed (employers' portion)	\$1,080,000,000	\$1,151,000,000
Premiums Assessed (workers' portion)	\$300,000,000	\$312,000,000
Benefits Incurred	\$2,135,874,000	\$2,348,838,000

Claim Statistics	FY 2010	FY 2009
Number of Claims Filed	102,734	116,616
Number of Claims Accepted	86,184	102,440
Number of Claims Denied	12,703	14,964
Fatal Pensions Awarded	45	42
Total Permanent Disability Pensions Granted	1,162*	1,612
Permanent Partial Disability Awards Granted	11,452	12,684
New Time-loss (Wage Replacement) Claims	22,604	26,295
Medical-only Claims Accepted	66,885	80,171
Retraining Plans Completed	1,229	1,142
Total Days Paid for Lost Work	8,121,263	7,926,800

Demographics of Accepted Claims	FY 2010	FY 2009
Male	66%	68%
Female	34%	32%
Average Age	38	38
Younger than 30	29%	32%
Age 30 to 50	48%	48%
Older than 50	22%	21%

Most Frequent Injuries	FY 2010		FY 2009	
	Rank & # of Claims		Rank & # of Claims	
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints <i>(includes sprains and strains)</i>	1	12,026	1	13,486
Finger(s): Open wounds of finger(s), fingernails <i>(includes cuts and lacerations, and amputation of fingertip or finger)</i>	2	8,641	2	10,837
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh <i>(excludes ankle and hip)</i>	3	3,774	4	4,356
Face: Surface wounds and bruises <i>(includes splinter or other foreign body in eye, and bruises or contusions of the forehead)</i>	4	3,753	3	5,020
Shoulder: Traumatic injuries to muscles, tendons, ligaments, joints, etc. including clavicle, scapula <i>(injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)</i>	5	3,501	5	4,053

**Notes:** The data are a snapshot of FY2010 (July 1 – June 30) as of the first week of October 2010. Because of rounding, some columns may not add up to 100%.

Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.

Counts of new time-loss (wage replacement) claims reflect claims with first time-loss payments, regardless of year claim was accepted.

\*Estimate; data accrual incomplete.

# Washington State Workers’ Compensation State Fund

## Focus on Fraud



Fraud in Washington State’s workers’ compensation program hurts our economy—honest businesses are undercut by those that don’t fairly participate in the system and workers and employers pay more than they should when others claim more benefits than they are entitled to receive.

For the past five years, L&I’s Fraud Prevention & Compliance Program has ramped up its approach to fighting fraud at every level. Legislative changes provided key tools that were necessary to aggressively fight fraud.

In fiscal year 2010, the total amount collected by our fraud-fighting efforts was \$137 million – a 46 percent increase since 2004, the year before L&I’s Fraud Prevention & Compliance program was established.

### Public tips critical to fighting fraud

People in Washington State contributed 800 tips on possible unpaid employer premiums between July 2009 and June 2010—up more than 200 from the previous fiscal year. During the same time period, L&I received 1,300 public tips on potential worker fraud/abuse—up from 500 the previous fiscal year.

### Harder to hide

L&I coordinates with other government agencies to find worker, employer and medical-provider fraud. For example, we are cross-matching with records from DSHS, Employment Security and Department of Revenue.

We teamed up with special prosecutors at the Office of the Attorney General to prosecute criminal cases. Since 2006, more than 110 cases of alleged criminal fraud by workers, employers and providers have been referred for prosecution. L&I has a 100% conviction rate on completed cases.

### ‘Boots on the ground’ kicks the underground economy

A small team of investigators has been sweeping construction sites, including nights and weekends to find firms that are unregistered, hiding payroll and working under the table. Team results: Audits for \$2.7 million last year, and an additional \$1.1

million in collections from firms that already owed premiums.

### Targeting capabilities increase with new technology

L&I has invested in better technology and advanced analytics to find businesses and individuals breaking the law. Better fraud detection means more time spent going after the bad guys, and less time with those who play by the rules.

We use Internal Revenue Service data and outside expertise to detect those who report more into the employment security system than they are reporting to L&I.

### Efforts are paying off

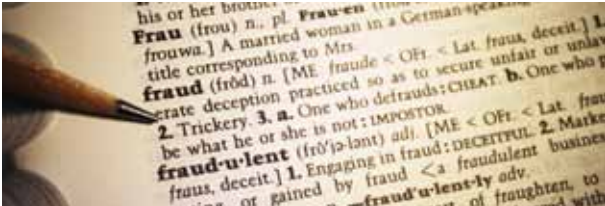
Return on investment has averaged \$8 for every \$1 spent to operate L&I’s Fraud Prevention and Compliance Program. The money collected is returned to the workers’ compensation trust funds.

#### Overview of Fraud Program Results

Revamped Fraud Program started in 2005	Baseline (FY 2004)	FY 2010	% Increase
# of Claim Investigations Completed	3,149	5,789	84%
Completed Audits	2,823	5,846	107%
\$ Identified by Audit	\$8.5 m	\$26.3 m	209%
Total \$ Collected	\$93.8 m	\$137.3 m	46%

### Challenging Times Demand Our Best

L&I is making many changes, both big and small, to better serve our customers and operate efficiently. You can read more in a new publication, *Challenging Times Demand Our Best*, available at [www.Lni.wa.gov/IPUB/101-095-000.pdf](http://www.Lni.wa.gov/IPUB/101-095-000.pdf). To request a printed copy, send an e-mail to [PublicAffairs@Lni.wa.gov](mailto:PublicAffairs@Lni.wa.gov) or call 360-902-5413.



## Financial Summary

### Accident, Medical Aid and Pension Reserve Accounts

Audited numbers, along with a 10-year history of our financials, will be available on the L&I Web site after January 31, 2011 at [www.StateFundFinancial.Lni.wa.gov](http://www.StateFundFinancial.Lni.wa.gov).

Summary of Financial Condition		Rounded to nearest thousands	
Fiscal Year Ending		June 30, 2010	June 30, 2009
<b>Assets</b>			
Cash and Investments	\$ 11,184,000,000	\$ 10,921,003,000	
Premium Receivables, Net	351,159,000	358,912,000	
Land, Buildings, and Improvements, Net	20,826,000	18,282,000	
Other Assets	17,672,000	46,570,000	
<b>Total Assets</b>	<b>\$ 11,573,657,000</b>	<b>\$ 11,344,767,000</b>	
<b>Liabilities and Contingency Reserve</b>			
Benefits	\$ 10,748,429,000	\$ 10,156,721,000	
Claims Administration	474,882,000	464,068,000	
Retrospective Rating Adjustments	114,643,000	116,909,000	
Other Liabilities	54,493,000	56,848,000	
<b>Total Liabilities</b>	<b>11,392,447,000</b>	<b>10,794,546,000</b>	
<b>Contingency Reserve</b>	<b>181,210,000</b>	<b>550,221,000</b>	
<b>Total Liabilities and Contingency Reserve</b>	<b>\$ 11,573,657,000</b>	<b>\$ 11,344,767,000</b>	

Summary of Operations and Contingency Reserve		
<b>Revenues</b>		
Net Premiums Earned	\$ 1,250,433,000	\$ 1,360,533,000
Net Investment Income Earned	486,996,000	517,863,000
Investment Gains (Losses)	17,725,000	(41,466,000)
Self-Insured Reimbursements	91,476,000	114,403,000
Other Income	43,040,000	54,614,000
<b>Total Revenues Earned</b>	<b>1,889,670,000</b>	<b>2,005,947,000</b>
<b>Expenses</b>		
Net Benefits Incurred	2,135,874,000	2,348,838,000
Claims Administration Expenses Incurred	152,309,000	185,980,000
Other Administrative Expenses Incurred	141,730,000	220,260,000
<b>Total Expenses Incurred</b>	<b>2,429,913,000</b>	<b>2,755,078,000</b>
<b>IT Tech Pool Transfer</b>	<b>840,000</b>	<b>(2,770,000)</b>
<b>Net Income (Loss)</b>	<b>(539,403,000)</b>	<b>(751,901,000)</b>
<b>Equities &amp; TIPS Unrealized Gains (Losses)</b>	<b>179,067,000</b>	<b>(361,649,000)</b>
<b>Change in Non-Admitted Assets</b>	<b>(8,675,000)</b>	<b>61,825,000</b>
<b>Change in Contingency Reserve</b>	<b>\$ (369,011,000)</b>	<b>\$ (1,051,725,000)</b>

Cash Flow Summary		
Operating Revenues Collected	\$ 1,406,162,000	\$ 1,530,146,000
Benefits Paid	(1,544,166,000)	(1,523,070,000)
Administrative Expenses Paid	(278,925,000)	(273,750,000)
<b>Net Operating Cash Flow</b>	<b>(416,929,000)</b>	<b>(266,674,000)</b>
Net Investment Income Collected	508,545,000	480,018,000
Investment Sales / (Purchases)	(97,963,000)	(173,610,000)
<b>Net Investment and Other Cash Flow</b>	<b>410,582,000</b>	<b>306,408,000</b>
<b>Net Cash Flow</b>	<b>(6,347,000)</b>	<b>39,734,000</b>
<b>Beginning Cash</b>	<b>12,190,000</b>	<b>(27,544,000)</b>
<b>Ending Cash</b>	<b>\$ 5,843,000</b>	<b>\$ 12,190,000</b>

**Note:** Figures rounded to nearest \$1,000; FY 2010 amounts are final audited.

**Source:** The Washington State Agency Financial Reporting System with adjustments for Statutory Basis of Accounting.

## An Invitation to Learn More

This *2010 Year in Review* is part of our effort to help L&I customers, the Legislature and the public learn more about Washington State’s workers’ compensation system. For more detailed financial reports, a breakdown on how State Fund monies are spent and average premium rates over the past 10 years, please visit [www.StateFundFinancial.Lni.wa.gov](http://www.StateFundFinancial.Lni.wa.gov).